

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

IN RE:

Chapter 9

Case No. 13-53846

City of Detroit, Michigan,

Debtor.

**INTERESTED PARTY DAVID SOLE'S OBJECTION
TO CITY OF DETROIT'S DISCLOSURE STATEMENT
WITH RESPECT TO PLAN OF ADJUSTMENT [DOCKET 2709]**

Now comes Interested Party David Sole and for his Objection to City of Detroit's Disclosure Statement With Respect to Plan of Adjustment [Docket 2709], states as follows:

1. Interested Party David Sole submitted a good faith elucidation of his objections to the City of Detroit's Disclosure Statement with Respect to its Plan of Adjustment to attorneys for the City of Detroit in accordance with this honorable Court's order on March 17, 2014.
2. Interested Party Sole now submits his Objection to the Disclosure Statement to this honorable Court.
3. Interested Party Sole's Objection is fully outlined below.

I. THE DISCLOSURE STATEMENT IGNORES THE ROLE OF THE BANKS IN CREATING THE FINANCIAL CRISIS IN DETROIT THROUGH THEIR PREDATORY MORTGAGE LENDING PRACTICES

Section C of the City of Detroit's Disclosure Statement, which allegedly outlines "The City's Steady Operational and Financial Decline," completely ignores the role of the banks in creating the economic crisis in Detroit through their predatory mortgage-lending policies. The banks' practices directly led to the City's population decline and destruction of neighborhoods throughout Detroit.

This information is critical for creditors to assess any plan of adjustment on fair and equitable grounds. Many of these same banks profited from their own misconduct, earning hundreds of millions of dollars on interest rate swaps on pension obligation certificates and water and sewerage bonds that they sold to the City, derivatives that became extremely advantageous to the banks as a result of the federal reserve lowering of interest rates to near zero when it bailed out the banks who were facing collapse as a result of their practices.

By the early 2000's, while the City of Detroit had experienced the devastating effects of the automotive restructuring in the late 1970's and 1980's, the City of Detroit's neighborhoods had at least stabilized. Population decline slowed between the years 1990 to 2000, and property values were increasing. It was the racist, predatory, fraudulent mortgage lending practices of the banks that hit Detroit like a bomb, led to the loss of one quarter of the City's population, and largely precipitated the current crisis that led the bankruptcy filing. These practices are documented in the Senate Select Committee Report on Wall Street and the Financial Crisis published April 13, 2011. **Exhibit 1, attached.**

As reported in the City of Detroit of Detroit January 1, 2009, Planning and Development Department Neighborhood Stabilization Program Plan, Detroit had the highest home foreclosure rate among the nation's 100 largest metropolitan areas, making it one of the cities hardest hit by the national foreclosure and sub-prime lending crisis. The report went on: "From 2004 to 2006, there were approximately 330,000 mortgages originated in Detroit. During the same time, 38,000 new mortgages were sold representing 11% of total mortgages. About 27,500 or 73% of new mortgages were high cost loans defined as loans with interest rates at least 3% above Treasury securities."

The report continues: “The result of the exorbitant numbers of high cost loans in Detroit is disturbing. From 2005 to 2007, Detroit experienced an astounding 67,000 foreclosures, more than 20% of all household mortgages. There were 4,600 tax foreclosures in the first six months of 2008 with over \$25 million in taxes due on these properties. Early estimates indicate that at least two-thirds of tax or mortgage foreclosed properties stand vacant causing tremendous problems for Detroit on many levels. A foreclosed property that stays on the market for an extended period of time can become an administrative and economic drain on a city; a study by the Homeownership Preservation Foundation found that a city can lose about \$20,000 per home in lost property taxes, unpaid utility bills, property upkeep, sewage and maintenance. High foreclosure rates also causes disinvestment by nearby residents, which contributes to neighborhood decline, affects surrounding property values, and leads to population loss and increased crime.” **Exhibit 2, attached.**

A study by Realty Trac published on November 2008 noted that the Detroit metropolitan area had the highest rate of foreclosure in the U.S., and that the non-prime foreclosure rate was 22.9%. Countrywide and First Franklin, since taken over by Bank of America, one the main beneficiaries of Detroit’s disastrous interest rate swaps, are both listed on the Realty Trac’s list of the worst ten sub-prime mortgage originators. **Exhibit 3, attached.**

A January 2013 report by the U.S. Department of Housing and Urban Development and U.S. Department of the Treasury noted that as of that date there were 70,000 foreclosed properties in the City of Detroit, 65% of which remained vacant. **Exhibit 4, attached.**

The omission of the mortgage crisis and its impact on Detroit from the disclosure statement is a glaring one that should be corrected for Detroiters and creditors to properly assess the proposed plan of adjustment.

II. THE CITY OF DETROIT PAYS \$80 MILLION A YEAR IN CHARGE BACKS ON TAX FORECLOSURES DUE TO THE DECLINE IN PROPERTY VALUES

A corollary to the effect of the mortgage crisis on the City of Detroit is the effect that the consequential decline on property values has had on the City. The disclosure report does note the decline in property tax revenues. However, the report makes no mention of the tens of millions of dollars the City has had to pay yearly since 2004 in charge backs to Wayne County (\$84 million for the fiscal year 2012 according to the 2012 City of Detroit CAFR). **Exhibit 5, attached.** The tens of millions of dollars in charge backs constitute a very high percentage of city debt.

Every year Wayne County pays the City for delinquent property tax bills. The County then collects the bills over the next two years, collecting high interest on the delinquent property taxes. After three years of non-payment, Wayne County sells the property at tax foreclosure. The County charges the City for the difference in what the property sold for and the amount paid to the city for the bill.

Because tax foreclosed properties are selling for such a small amount due to the decline in Detroit property values as a product of the foreclosure epidemic, the charge backs to the City paid out of the budget are enormous as outlined above.

Incredibly, there currently are federal funds available through the Helping Hardest Hit Homeowner Program to pay delinquent property tax bills for homeowners, but the state has placed severe restrictions on releasing these funds. Release of these funds would not only keep homeowners in their homes, but would relieve the City's budget deficit by eliminating a large amount of the charge backs.

In addition, it has been estimated that 48% of the charge backs are bank-owned and Fannie Mae owned properties, post-foreclosure. **Exhibit 6, attached, October 22, 2012, Detroit Free Press article.**

III. THE DISCLOSURE STATEMENT IS SILENT ON THE CUTBACKS IMPOSED TO FUND THE “CITY’S RESTRUCTURING”

The Disclosure statement makes no mention of the amount paid by City taxpayers for consultants over the past year, as indicated by the \$95 million appropriated for the City’s “restructuring fund” in October 2013. Incredibly, this \$95 million was derived from cuts in virtually every area of City functioning. The disclosure further does not outline what the consultants have done to justify this exorbitant expense. **Exhibit 7, attached.**

IV. THE DISCLOSURE REPORT IS SILENT ON THE STATE’S QUESTIONABLE WITHHOLDING OF REVENUE SHARING

While the Disclosure Statement does reflect the decline in state revenue sharing, a February 2014 Michigan Municipal League Report, entitled “The Great Revenue Sharing Heist,” noted that from 2003 to 2013 annual state sales tax revenues increased from \$6.6 to \$7.72 billion. During that same period, statutory revenue sharing decreased from over \$900 million annually to around \$250 million, as the state diverted sales tax revenues to plug state deficits, rather than maintain promises and statutory formulas to provide funding to local governments.

According to Anthony Minghine, associate director of the Michigan Municipal League, this diversion of state sales tax revenues away from the cities cost the City of Detroit \$732,235,683. **Exhibit 8, attached.**

Of course, now the State of Michigan is sitting on a \$1 billion surplus, while the State has placed cities like Flint, Pontiac, Hamtramck, etc. under emergency management and Detroit in bankruptcy.

CONCLUSION

Interested Party David Sole respectfully requests that his honorable Court direct the City of Detroit to include his objections into the City of Detroit Disclosure Statement.

Respectfully submitted,

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